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Legislative Audit Division

State of Montana

Report to the Legislature

October 2001

Financial Audit

For the Fiscal Year Ended June 30, 2001

Montana Board of Housing

Department of Commerce

We performed a financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2001. This report contains the audited financial statements and accompanying notes for fiscal year 2000-2001. We issued an unqualified opinion on the financial statements of the board. The opinion means the reader may rely on the financial statement information presented.

The audit report contains no recommendations.

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena, MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
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Helena MT 59620-1705

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John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2001

The Legislative Audit Committee
Of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing for fiscal year 2000-01. The objectives of our financial audit included determining if the board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 2001, with comparative combined totals at and for the period ending June 30, 2000. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial audit of the Department of Commerce. There were no prior audit recommendations related to the board.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana.

On page A-1, you will find the Independent Auditor's Report followed by the board's financial statements and accompanying notes. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information.

In addition to the annual financial audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

We thank the Board of Housing and its staff and the Department of Commerce staff for their cooperation and assistance during the audit. The board's response to our audit is on page B-1.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Appointed and Administrative Officials

		Term Expires
Montana Board of Housing		
	Bob Thomas, Chairman	2003
	Robert Savage, Vice Chairman	2005
	William Oser, Secretary	2005
	Steve Redinger	2005
	Waneeta Farris	2003
	Teresa Lightbody	2003
	Thomas Welch	2005

Administrative Officials:
Department of Commerce
Board of Housing

Mark Simonich, Director

Bruce Brensdal, Executive Director

Kelly Rusoff, Accounting and Finance Manager

Mat Rude, Multifamily Program Manager

Bob Morgan, Single Family Program Manager

For further information on the Montana Board of Housing contact Bruce Brensdal, Executive Director, at:

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(406) 444-3040
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Members of the audit staff involved in this audit were Angela Lang, Emy Neuman-Javornik, Laura Norris, and Paul O'Loughlin.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combining Balance Sheet of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2001, and 2000, and the related Combining Statement of Revenues, Expenses/Expenditures and Changes in Retained Earnings/Fund Balance and the Combining Statement of Cash Flows Enterprise Funds for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2001, and 2000, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Single Family Combining Balance Sheet as of June 30, 2001, and the related Single Family Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

October 5, 2001

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MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING BALANCE SHEET
June 30, 2001 with comparative combined totals for 2000

	Special Revenue	Enterprise				
	Affordable Revolving Loan Account	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals (memorandum only) 2001	2000
ASSETS						
Cash and cash equivalents (Note 2)	$1,134	$1,960,418	$1,078,742	$1,394,186	$4,434,480	$3,022,885
Investments (Note 4)	-	205,923,469	6,912,140	-	212,835,609	170,061,378
Mortgage Loans receivable (Note 5)	1,500,000	578,863,528	22,721,566	990,334	604,075,428	548,768,967
Interest receivable	-	4,999,689	178,403	197,229	5,375,321	6,182,945
Deferred bond issuance costs, net	-	7,115,311	352,990	-	7,468,301	6,754,081
Fixed assets, net (Note 7)	-	151,616	2,020	2,020	155,656	202,466
Prepaid expense	-	160,697	1,949	3,564	166,210	28,645
Cash Collateral for Securities Lending	-	-	-	-	-	130
Total Assets	$1,501,134	$799,174,728	$31,247,810	$2,587,333	$834,511,005	$735,021,497
LIABILITIES AND EQUITY						
Liabilities:						
Accounts payable	-	$367,120	$6,596	$579	$374,295	$418,328
Due to State Government	-	50,428	5,621	3,345	59,394	44,813
Property Held in Trust	-	1,754	-	911	2,665	2,207
Accrued interest-bonds payable	-	3,912,580	587,775	-	4,500,355	5,715,154
Bonds payable, net (Note 8)	-	691,329,012	23,004,541	-	714,333,553	622,595,755
Deferred Refunding Costs	-	(312,551)	-	-	(312,551)	(19,634)
Arbitrage tax payable to U.S. Treasury Department (Note 12)	-	941,935	-	-	941,935	227,090
Accrued compensated absences	-	41,816	8,364	9,558	59,738	48,121
Cash Collateral for Securities Lending	-	-	-	-	-	130
Total Liabilities	-	696,332,094	23,612,897	14,393	719,959,384	629,031,964
Equity:						
Retained Earnings:						
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 10):						
Unrealized (losses) gains on investments	-	$886,670	$29,014	-	$915,684	($829,487)
Single Family Programs	-	81,023,179	-	1,762,759	82,785,938	72,290,417
Various Recycled Mortgage Programs	-	20,582,785	-	-	20,582,785	24,727,430
Multifamily Programs	-	-	7,391,712	-	7,391,712	6,255,144
Multifamily Project Commitments	-	-	214,187	-	214,187	575,519
Reverse Annuity Mortgage Program	-	350,000	-	803,930	1,153,930	1,316,984
Cash Assistance Program	-	-	-	6,251	6,251	152,806
Fund Balance:						
Reserved for Affordable Revolving Loan Program	1,501,134	-	-	-	1,501,134	1,500,720
Total Equity	1,501,134	102,842,634	7,634,913	2,572,940	114,551,621	105,989,533
Total Liabilities and Equity	$1,501,134	$799,174,728	$31,247,810	$2,587,333	$834,511,005	$735,021,497

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES/EXPENDITURES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
June 30, 2001 with comparative combined totals for 2000

	Special Revenue	Enterprise			Combined Totals (memorandum only)	
	Affordable Revolving Loan Account	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	2001	2000
REVENUES:						
Interest income-mortgage loans	$414	$38,234,376	$1,414,593	$48,461	$39,697,844	$34,902,669
Interest income-investments	-	11,273,008	546,615	81,029	11,900,652	10,884,886
Fee income	-	57,694	-	149,459	207,153	243,939
Federal Financial Assistance	-	-	240,866	-	240,866	-
Net increase (decrease) in fair value of investments	-	1,597,886	48,661	-	1,646,547	(1,187,740)
Grant Income	-	-	-	-	-	1,500,000
Other income	-	12	5,379	4,000	9,391	25,723
Securities Lending Income	-	275	-	514	789	3,947
Total revenues	$414	$51,163,251	$2,256,114	$283,463	$53,703,242	$46,373,424
EXPENSES/EXPENDITURES:						
Interest on bonds	-	38,674,328	1,416,841	-	40,091,169	35,746,152
Servicer fees	-	2,117,673	21,080	-	2,138,753	1,876,180
Contracted Services	-	489,117	31,345	6,494	526,956	564,480
Amortization of bond issuance costs	-	203,147	23,584	-	226,731	180,609
General and administrative	-	852,332	90,139	101,958	1,044,429	1,004,758
Securities Lending Expense	-	268	-	499	767	3,791
Arbitrage rebate tax (Note 12)	-	714,845	-	-	714,845	236,388
Loss on redemption (Note 9)	-	397,504	-	-	397,504	417,949
Total Expenses/Expenditures	-	$43,449,214	$1,582,989	$108,951	$45,141,154	$40,030,307
Excess of revenues over (under) expenses/expenditures	414	7,714,037	673,125	174,512	8,562,088	6,343,117
Operating Transfers in (out)	-	(253,094)	253,094	-	-	-
Net income	414	7,460,943	926,219	174,512	8,562,088	6,343,117
Retained Earnings/Fund Balance, July 1	1,500,720	95,381,691	6,708,694	2,398,428	105,989,533	99,646,416
Retained Earnings/Fund Balance, June 30	$1,501,134	$102,842,634	$7,634,913	$2,572,940	$114,551,621	$105,989,533

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 2001 with comparative combined totals for 2000

	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals (memorandum only) 2001	2000
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts for Sales and Services	-	-	$149,459	$149,459	$108,226
Collections on Loans					
And Interest on Loans	$96,138,673	$2,373,818	67,592	98,580,083	85,230,225
Cash payments for Loans	(104,832,717)	(9,690,095)	(241,367)	(114,764,179)	(131,881,592)
Federal Financial Assistance Receipts	-	240,866	-	240,866	-
Payments to Suppliers					
for Goods and Services	(3,104,712)	(126,579)	(43,924)	(3,275,215)	(2,647,924)
Payments to employees	(431,099)	(44,022)	(57,544)	(532,665)	(560,729)
Other Operating Revenues	12	5,379	4,000	9,391	25,723
Net Cash Provided (Used) for					
Operating Activities	(12,229,843)	(7,240,633)	(121,784)	(19,592,260)	(49,726,071)
CASH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES:					
Payment of Principal and					
Interest on Bonds and Notes	(90,392,944)	(2,116,688)	-	(92,509,632)	(97,335,892)
Proceeds from Issuance					
of Bonds and Notes	142,940,000		-	142,940,000	157,555,000
Payment of Bond Issuance Costs	(1,450,223)	(1,978)	-	(1,452,201)	(1,875,885)
Premium Paid on Refunding Bonds	(88,100)		-	(88,100)	(398,077)
Transfers in (out)	(253,094)	253,094	-	-	-
Net Cash Provided (Used for)					
Noncapital Financing Activities	50,755,639	(1,865,572)	-	48,890,067	57,945,146
CASH FLOWS FROM CAPITAL AND RELATED					
FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	-	-	-	-	(117,818)
Net Cash Used for Capital and					
Related Financing Activities	-	-	-	-	(117,818)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(374,436,266)	(28,557,711)	-	(402,993,977)	(632,597,335)
Proceeds from Sales or					
Maturities of Investments	324,312,018	37,652,900	-	361,964,918	611,252,496
Interest on Investments	12,087,474	973,915	81,044	13,142,433	9,439,535
Arbitrage Rebate Tax	-	-	-	-	(110,600)
Net Cash Provided by (Used for)					
Investing Activities	(38,036,774)	10,069,104	81,044	(27,886,626)	(12,015,904)
Net Increase (Decrease) in Cash					
And Cash Equivalents	489,022	962,899	(40,740)	1,411,181	(3,914,647)
Cash and Cash Equivalents,beginning bal.	1,471,396	115,843	1,434,926	3,022,165	6,936,812
Cash and Cash Equivalents, ending bal.	$1,960,418	$1,078,742	$1,394,186	$4,433,346	$3,022,165

The accompanying notes to the financial statements are an integral part of this statement

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 2001 with comparative combined totals for 2000

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals (memorandum only) 2001	2000
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	$7,714,037	$673,125	$174,512	$8,561,674	$4,842,397
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	46,074	368	368	46,810	30,767
Amortization	600,652	23,583	-	624,235	598,558
Interest Expense	38,674,328	1,416,841	-	40,091,169	35,746,152
Interest on Investments	(11,273,015)	(546,615)	(81,044)	(11,900,674)	(10,885,028)
Arbitrage Rebate Tax	714,845	-	-	714,845	236,388
Bad Debt Allowance	100,000	-	-	100,000	50,000
(Incr) Decr in fair value of investments	(1,597,886)	(48,661)	-	(1,646,547)	1,187,740
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	-	-	-	-	1,671
Decr (Incr) in Mortgage Loans Receivable	(46,759,080)	(8,678,693)	(179,427)	(55,617,200)	(81,448,944)
Decr (Incr) in other assets	(576,019)	(51,348)	(42,958)	(670,325)	(315,937)
Incr (Decr) in Accounts Payable	(80,858)	(35,917)	(1,830)	(118,605)	121,471
Incr (Decr) in Deferred Reservation & Disc. Fees	211,458	(717)	-	210,741	170,399
Incr (Decr) in Deferred Revenue	-	-	-	-	(69,632)
Incr (Decr) in Compensated Absences Payable	(4,379)	7,401	8,595	11,617	7,927
Net Cash Provided by (Used for) Operating Activities	($12,229,843)	($7,240,633)	($121,784)	($19,592,260)	($49,726,071)

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:
The financial statements of the Board have been prepared in conformity with generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB) . Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The modified accrual basis is followed for the special revenue fund. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's General Purpose Financial Statements. The enterprise fund of the Board of Housing are part of but do not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, retained earnings, revenues, and expenses. The majority of the funds at the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained Earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting – continued

Reserved Retained Earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:

Single Family Mortgage Program Funds - these funds, established under seven separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development (RD).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992 must be insured by the Federal Housing Administration.

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established for accounting for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the financial statements, includes activity for both Indentures.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Affordable Housing Revolving Loan Account - Under MCA 90-6-133, a Revolving Loan Account was established. This is an affordable housing revolving loan account in the state special revenue fund in the state treasury. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents:
For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool.

Investments:
Investment of the Board's monies is made in accordance with the Board's investment policy, dated April 13, 2000, which is in accordance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes, certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value", as required by GASB 31.

Mortgage Loans Receivable:
Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:
Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of fixed assets consists of computers and software.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Bonds Payable:
Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:
The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 2001 and 2000, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
Fund	1	2	3	2001	2000
Program Funds*	$ 4,402,705	$ -	$ -	$4,402,705	$2,780,038
Deposited with State Treasury	31,775	-	-	31,775	242,847
	$ 4,434,480	$ -	$ -	$4,434,480	$ 3,022,885

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at $1 per unit. The market value of STIP is equal to the cost. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool, administered by the Board of Investments the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the Board of Investments (BOI) has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2001 and 2000, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 2001 and 2000 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2001 and 2000. More over, there were no losses during fiscal years 2001 and 2000 resulting from a default of the borrowers or State Street.

During fiscal years 2001 and 2000, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2001 and June 30, 2000, BOI had no credit risk exposure to borrowers.

As of June 30, 2001, there were no securities on loan.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. The Board's investments at June 30, 2001 and 2000 consisted of Category 2 investments:

	2001		2000	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	$20,021,755	$20,021,755	$20,318,866	$20,318,866
U.S. Agency	38,293,266	38,295,374	29,563,564	29,564,554
Repurchase agreements and Investment Contracts-- Collateralized	154,520,588	154,520,587	120,178,948	120,178,948
Total	$ 212,835,609	$212,837,716	$170,061,378	$170,062,368

NOTE 4. INVESTMENTS-Continued

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	2001		2000	
Funds	Single family Mortgage Program Funds	Multifamily Mortgage Program funds	Single family Mortgage Program funds	Multifamily Mortgage Program Funds
Debt service reserve	$43,523,767	$1,390,558	$43,247,670	$1,383,649
Mortgage reserve	$3,972,851	$235,200	$4,022,363	$242,897
Total	$47,496,618	$1,625,758	$47,270,033	$1,626,546

As of June 30, 2001 original bond proceeds of $90,219,969 were still on deposit in the 1999A, 2000A, 2000B and 2001A program acquisition funds to be used for the purchase of Single Family Mortgage loans. The proceeds of $90,219,969 included $51,345,291 in the 2001A bond issue which was closed on May 31, 2001.

As of June 30, 2001 there was $23,609,832 in Single Family reservations outstanding in the 2000A and 2001A bond issues.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	2001	2000
Mortgage loan receivables:		
Single Family Program	$584,447,054	$537,687,971
Multifamily Program	22,796,968	14,118,275
Housing Trust Program	990,334	810,906
Affordable Revolving Loan Account	1,500,000	1,500,000
	609,734,356	554,117,152
Net mortgage discounts and deferred reservation fees	(5,408,928)	(5,198,185)
Allowance for loan losses and real estate owned (note 6)	(250,000)	(150,000)
	$604,075,428	$548,768,967

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1999	$100,000
Provision	105,585
Less: Net loans charged off	(55,585)
Balance, June 30, 2000	150,000
Provision	176,986
Less: Net loans charged off	(76,986)
Balance, June 30, 2001	$ 250,000

The allowance for loan losses includes $150,000 at June 30, 2001 and $50,000 at June 30, 2000 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held four real estate owned properties as of June 30, 2001 and June 30, 2000.

NOTE 7. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	2001	2000
Furniture, fixtures, and equipment at cost	$362,485	$362,485
Accumulated depreciation	(206,829)	(160,019)
Net fixed assets	$ 155,656	$ 202,466

Depreciation expense included in general and administrative expense was $46,810 and $30,767 for the years ended June 30, 2001 and 2000 respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	2001	2000
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037	$91,360,00	$78,210,000	$83,330,000
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031	$60,000,000	$56,885,000	$59,100,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2001	2000
2000 Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032	$87,695,000	$83,630,000	$87,695,000
2000 Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031	$71,940,000	$71,355,000	-
2001 Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	$71,000,000	$71,000,000	-
Total bonds outstanding Single Family I		$ 361,080,000	$230,125,000
Single Family II Mortgage Bonds:			
1983 - Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	6,590,019	7,977,993
1984 - Series A, serial, term and CABS, 7.0% to 11.5% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in whole, in an annual installment on June 1, 2010	75,002,290	1,845	1,650
1985 - Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	5,112,148	6,198,033

NOTE 8. BONDS PAYABLE, NET – continued

	Original Amount	2001	2000
1985 -			
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	2,375,000	2,470,000
1992 -			
Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 -			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1,2015 and December 1, 2024.	25,725,000	9,570,000	12,070,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	3,515,000	8,820,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	1,360,000	4,265,000
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	33,580,000	16,445,000	19,565,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	82,315,000	85,220,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	47,630,000	53,475,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2001	2000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	47,060,000	49,815,000
1998			
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	61,515,000	64,335,000
Total bonds outstanding Single Family II		306,009,012	336,732,676
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	24,000,000	1,825,000	2,405,000
Subordinate Bonds	1,000,000	-	15,000
Single Family VII Mortgage Bonds:			
1990 – Refunded, October 1, 2000			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.45% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	-	4,535,000
Subordinate Bonds	1,000,000	-	100,000
Single Family VIII Mortgage Bonds:			
1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	6,315,000	6,950,000
Subordinate Bonds	1,000,000	135,000	215,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2001	2000
Single Family IX Mortgage Bonds:			
1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	6,770,000	7,455,000
Subordinate Bonds	1,000,000	175,000	255,000
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	24,000,000	8,675,000	9,950,000
Subordinate Bonds	1,000,000	345,000	440,000
Total Single Family Mortgage bonds payable, net		691,329,012	599,177,676

All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

	Original Amount	2001	2000
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	4,865,000	2,540,000	2,600,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	8,400,000	8,600,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2011, and on August 1, 2016, and August 1, 2026.	890,000	830,000	845,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2001	2000
1998			
Series A 3.5% to 4.70% interest, serial and term Bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,495,000	1,565,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039	9,860,000	9,790,000	9,860,000
Total bonds outstanding		23,055,000	23,470,000
Unamortized bond premiums		(50,459)	(51,921)
Total Multifamily Mortgage bonds payable, net		23,004,541	23,418,079
Combined total bonds payable, net		$714,333,553	$622,595,755

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

The following is a primary summary of bond principal and interest requirements as of June 30, 2001:

Year Ending June 30:	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2002	$49,335,525	$1,912,262	$ 9,735,500	$41,512,287
2003	51,841,403	1,905,683	12,765,528	40,981,558
2004	53,373,608	1,897,450	14,558,377	40,712,681
2005	52,177,141	1,857,838	13,955,816	40,079,163
2006	51,761,326	1,862,470	14,264,048	39,359,748
Thereafter	1,211,121,298	39,461,264	649,104,743	601,477,819
Total	$1,469,610,301	$48,896,967	$714,384,012	$804,123,256

Cash paid for interest expenses during the years ending June 30, 2001 and 2000 was $40,018,177 and $31,708,704, respectively.

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2001 and 2000 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2001	2000
Single Family I		
December 1	$3,300,000	$3,020,000
February 1	170,000	-
June 1	7,410,000	2,340,000
	10,880,000	5,360,000
Single Family II		
October 1	-	5,095,000
December 1	$13,530,365	13,858,135
June 1	11,984,073	7,846,491
	25,514,438	26,799,626
Single Family III		
October 1	$270,000	$750,000
April 1	220,000	275,000
	490,000	1,025,000
Single Family IV		
October 1	-	$4,695,000
April 1	-	-
	-	4,695,000
Single Family V		
October 1	-	$1,040,000
April 1	-	4,845,000
	-	5,885,000
Single Family VI		
October 1	-	$1,055,000
April 1	-	5,455,000
	-	6,510,000
Single Family VII		
October 1	$175,000	$720,000
April 1	-	270,000
	175,000	990,000
Single Family VIII		
October 1	$355,000	$960,000
April 1	135,000	455,000
	490,000	1,415,000
Single Family IX		
October 1	$310,000	$1,190,000
April 1	230,000	625,000
	540,000	1,815,000
Single Family X		
October 1	$535,000	$1,220,000
April 1	530,000	490,000
	1,065,000	1,710,000
Multifamily	-	1,350,000
Total	$39,154,438	$57,554,626

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of $397,504 and $417,949 in 2001 and 2000 respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $967,246 from the issuance of the 2000 Series A Bonds and $22,642,586 from the issuance of the 2001 Series A bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	$250,000
Glacier Affordable Housing Program	1,653,709
City of Billings	1,877,499
Neighborhood Housing Services MT Home Ownership Network	5,590,976
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	807,062
Habitat for Humanity	307,230
City of Lewistown	400,000
Neighborhood Housing Services (statewide)	236,292
City of Red Lodge	449,750
First Time Homebuyers Savings Account	871,027
USDA Rural Housing Development	1,755,344
Billings High Sierra Affordable Housing	193,635
Native American Housing Loan Guarantee	1,000,000
City of Shelby	511,362
District XI Human Resource Council	3,420,000
Helena Housing Authority	1,000,000
Disabled Affordable Accessible Homeownership Program	258,899
Total Single Family commitments	$20,582,785

Other Commitments--Single Family I Reverse Annuity Mortgage Program	$350,000

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	$214,187
Total Multifamily Commitments	

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program-Disabled	$ 6,251
Reverse Annuity Mortgage Program	803,930
Total Housing Trust Fund commitments	$810,181

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers full-time permanent employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plan are required and determined by State law.

The contribution rates for 2001 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.90%	6.90%	13.80%

The amounts contributed to the plan during the years ended June 30, 1999, 2000 and 2001 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as permitted by State law, were as follows:

Fiscal Year 1999- $25,930
Fiscal Year 2000- $29,149
Fiscal Year 2001- $28,107

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

There were no arbitrage rebate tax cash payments to the Treasury Department in fiscal year 2001. During fiscal year ended June 30, 2000, $110,600 was paid to the Treasury Department. The liabilities are $941,935 and $227,090 as of June 30, 2001 and 2000, respectively.

NOTE 13. SUBSEQUENT EVENTS

On May 31, 2001, the board issued $71,000,000 in bonds under the Single Family I Indenture. A portion of the bond proceeds were used to fully refund the 1991A and 19991B Single Family Program Issues on July 1, 2001.

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On September 14, 2000, Series 2000B was issued in the amount of $71,940,000. In conjunction with the issuance of the 2000B bonds, the Board refunded the 1990C bond issue on October 1, 2000.

Under GASB 23, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2001 Refunding:	
Cost of Issuance related to the refunded bonds (90C)	$47,241
Premium paid on the refunded bonds (90C)	88,100
Total deferred refunding costs	135,341
Less amortization FY 2001	(8,056)
Amount remaining to be amortized on FY 2001 issue	$127,285
Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$185,266
Total unamortized	$312,551

The refunding of the 1990C bonds resulted in an economic gain of $737,211 and a difference in cash flows of $498,338.

NOTE 15. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 2001

	Single Family I	Single Family II	Single Family III
ASSETS			
Cash and cash equivalents	$878,539	$972,002	$29,648
Investments	135,929,491	65,728,650	480,090
Mortgage loans receivable	252,542,083	304,925,027	1,982,694
Interest receivable--Investments	530,916	631,625	7,352
Interest receivable-Mortgages	1,617,825	1,991,769	19,661
Deferred bond issuance costs, net	3,854,818	2,989,616	17,798
Fixed assets	62,047	89,569	-
Prepaid expense	82,897	77,800	-
Total assets	$395,498,616	$377,406,058	$2,537,243
LIABILITIES AND RETAINED EARNINGS			
Liabilities:			
Accounts payable	$200,035	$155,914	$1,373
Due to State Government	35,864	14,564	-
Property Held in Trust	-	1,754	-
Accrued interest bonds payable	2,051,629	1,423,267	35,437
Bonds payable, net	361,080,000	306,009,012	1,825,000
(Less)plus: Deferred refunding costs	(533,028)	220,477	-
Arbitrage tax payable to U.S. Treasury Department	256,608	684,921	
Accrued compensated absences	20,908	20,908	-
Total liabilities	363,112,016	308,530,817	1,861,810
RETAINED EARNINGS:			
Reserved Retained Earnings-			
Pledged to Bondholders			
Unrealized Gains		886,670	
Single Family Programs	30,229,538	49,212,848	675,433
Reverse Annuity Mortgage Programs	350,000		
Multifamily Project Commitments			
Various Recycled Mortgage Programs	1,807,062	18,775,723	
Total Retained Earnings	32,386,600	68,875,241	675,433
Total Liabilities and Retained Earnings	$395,498,616	$377,406,058	$2,537,243

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 2001

	Single Family VIII	Single Family IX	Single Family X	Combined Totals
ASSETS				
Cash and cash equivalents	$38,054	$36,610	$5,565	$1,960,418
Investments	1,227,441	1,216,632	1,341,165	$205,923,469
Mortgage loans receivable	5,665,790	6,088,204	7,659,730	$578,863,528
Interest receivable--Investments	18,225	18,008	19,609	$1,225,735
Interest receivable-Mortgages	45,326	47,369	52,004	$3,773,954
Deferred bond issuance costs, net	75,150	75,588	102,341	$7,115,311
Fixed assets	-	-	-	$151,616
Prepaid expense	-	-	-	$160,697
Total assets	$7,069,986	$7,482,411	$9,180,414	$799,174,728
LIABILITIES AND RETAINED EARNINGS				
Liabilities:				
Accounts payable	$2,946	$3,162	$3,690	$367,120
Due to State Government	-	-	-	$50,428
Property Held in Trust	-	-	-	$1,754
Accrued interest bonds payable	118,997	127,179	156,071	$3,912,580
Bonds payable, net	6,450,000	6,945,000	9,020,000	$691,329,012
Less: Deferred refunding costs	-	-	-	($312,551)
Arbitrage tax payable to U.S. Treasury Department	-	406	-	$941,935
Accrued compensated absences	-	-	-	$41,816
Total liabilities	6,571,943	7,075,747	9,179,761	696,332,094
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Unrealized Gains				$886,670
Single Family Programs	498,043	406,664	653	$81,023,179
Reverse Annuity Mortgage Programs				$350,000
Various Recycled Mortgage Programs				$20,582,785
Total Retained Earnings	498,043	406,664	653	102,842,634
Total Liabilities and Retained Earnings	$7,069,986	$7,482,411	$9,180,414	$799,174,728

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 2001

	Single Family I	Single Family II	Single Family III
REVENUES:			
Interest Income-mortgage loans	$15,343,262	$20,938,496	$233,717
Interest Income-Investments	6,423,699	4,558,133	36,474
Fee income	32,737	24,957	-
Net increase (decrease) in fair value of investments	-	1,597,886	-
Other income	6	6	-
Securities Lending Income	-	275	-
Total revenues	$21,799,704	$27,119,753	$270,191
EXPENSES:			
Interest on bonds	$17,350,992	$19,458,987	$164,524
Servicer fees	825,542	1,200,764	9,655
Contracted Services	214,197	249,039	2,119
Amortization of bond issuance costs	183,227	3,175	1,793
General and administrative	424,108	428,224	-
Arbitrage rebate tax	221,750	496,897	-
Loss on redemption	118,692	249,829	4,909
Securities Lending Expense	-	268	-
Total expenses	$19,338,508	$22,087,183	$183,000
Net operating income (loss)	2,461,196	5,032,570	87,191
Operating transfers (out)in	202,288	-	-
Net income (loss)	2,663,484	5,032,570	87,191
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholders	29,723,116	63,842,671	588,242
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholders	$32,386,600	$68,875,241	$675,433

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 2001

	Single Family VII	Single Family VIII	Single Family IX
REVENUES:			
Interest Income-mortgage loans	-	$530,667	$560,112
Interest Income-Investments	-	75,163	78,858
Fee income	-	-	-
Net increase (decrease) in fair value of investments	-	-	-
Other income	-	-	-
Securities Lending Income	-	-	-
Total revenues	-	$605,830	$638,970
EXPENSES:			
Interest on bonds	-	$497,173	$534,307
Servicer fees	-	24,471	26,014
Contracted Services	-	6,751	7,306
Amortization of bond issuance costs	-	3,817	4,377
General and administrative	-		-
Arbitrage rebate tax	-	-	(3,802)
Loss on redemption	-	5,772	5,948
Securities Lending Expense	-	-	-
Total expenses	-	$537,984	$574,150
Net operating income (loss)	-	67,846	64,820
Operating transfers (out)in	(455,382)	-	-
Net income (loss)	(455,382)	67,846	64,820
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholders	455,382	430,197	341,844
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholders	-	$498,043	$406,664

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 2001

	Single Family X	Combined Totals
REVENUES:		
Interest Income-mortgage loans	$628,122	$38,234,376
Interest Income-Investments	100,681	11,273,008
Fee income	-	57,694
Net increase (decrease) in fair value of investments	-	1,597,886
Other income	-	12
Securities Lending Income	-	275
Total revenues	$728,803	$51,163,251
EXPENSES:		
Interest on bonds	$668,345	$38,674,328
Servicer fees	31,227	2,117,673
Contracted Services	9,705	489,117
Amortization of bond issuance costs	6,758	203,147
General and administrative	-	852,332
Arbitrage rebate tax	-	714,845
Loss on redemption	12,354	397,504
Securities Lending Expense	-	268
Total expenses	$728,389	$43,449,214
Net operating income (loss)	414	7,714,037
Operating transfers (out)in	-	(253,094)
Net income (loss)	414	7,460,943
Retained Earnings, beginning of year:		
Reserved Retained Earnings-Pledged to Bondholders	239	95,381,691
Retained Earnings, end of year:		
Reserved Retained Earnings-Pledged to Bondholders	$653	$102,842,634

MONTANA
DEPARTMENT OF COMMERCE

OCT 2 4 2001

Montana Board of Housing
PO Box 200528
Helena, MT 59620-0528

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TDD. (406) 444-2978

October 24, 2001

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

Thank you for the opportunity to respond to the Audit Report on the 2000-2001 Board of Housing Financial Statements. We are pleased with the unqualified opinion. We appreciate the hard work the staff has put into the Board audit. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

Bruce Brensdal
Executive Director